



PO VALLEY ENERGY LIMITED

A.B.N. 33 087 741 571

**CONSOLIDATED FINANCIAL REPORT FOR THE
YEAR ENDED 31 DECEMBER 2018**

PO VALLEY ENERGY LIMITED
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**PO VALLEY ENERGY LIMITED
CORPORATE DIRECTORY**

Directors	Michael Masterman Chairman and Chief Executive Officer Byron Pirola Non-Executive Director Kevin Bailey Non-Executive Director
Company Secretary	Kevin Hart
Registered Office	Suite 8, 7 The Esplanade, Mt. Pleasant WA 6153 Australia Tel: +61 8 9316 9100
Rome Office	Via Francesco Crispi 90, 00143 Rome Italy Tel: +39 06 42014968
Share Register	Link Market Services Limited Level 12, 250 St Georges Terrace, Perth WA 6000
Auditor	Bentleys NSW Audit Pty Ltd Level 14, 60 Margaret Street Sydney NSW 2000 Australia
Solicitors	Steinepreis Paganin Level 4, The Read Buildings, 16 Milligan Street, Perth WA 6000 Australia
Banks	Bankwest 108 St. Georges Terrace, Perth WA 6000, Australia
Stock Exchange Listing	Po Valley Energy Limited shares are listed on the Australian Securities Exchange (ASX) under the code PVE
Website address	www.povalley.com

PO VALLEY ENERGY LIMITED DIRECTORS' REPORT

The Directors present their report together with the financial report of Po Valley Energy Limited ('the Company' or 'PVE') and of the Group, being the Company and its controlled entities, for the year ended 31 December 2018.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Michael Masterman — Chief Executive Officer and Chairman, BEcHons, Age 56
Director since 22 June 1999

Michael is a co-founder of PVE. Michael first took up the position of CEO of PVE in 2002 up to October 2010 when he took up an executive position at Fortescue Metal Group until June 2014. Prior to joining PVE, Michael was CFO and Executive Director of Anaconda Nickel (now Minara Resources), and he spent 8 years at McKinsey & Company serving major international resource companies principally in the area of strategy and development. He is also Chairman of W Resources Plc, an AIM listed company with tungsten and gold assets in Spain and Portugal. Michael was appointed as Chairman of PVE on 22 April 2016 and took up the role of Chief Executive Officer on 1 November 2017.

Byron Pirola — Non-Executive Director, BSc, PhD, Age 58
Director since 10 May 2002

Byron is a co-founder of PVE and is based in Sydney. He is currently a Director and Managing Director of Port Jackson Partners Limited, a Sydney based strategic management consulting firm. Prior to joining Port Jackson Partners in 1992, Byron spent six years with McKinsey & Company working out of the Sydney, New York and London offices and across the Asian region. He has extensive experience in advising CEOs and boards of both large public and small developing companies across a wide range of industries and geographies.

Kevin Bailey AM — Non-Executive Director, DipFP, Age 58
Director since 3 May 2016

Kevin was appointed as a director on 22 April 2016. He has been a shareholder of the Company since April 2008 and brings significant business acumen and experience to the Board. Mr. Bailey is a highly successful businessman with a range of business interests, both local and overseas. He worked for 28 years as a Certified Financial Planner and was a founding director of Shadforth Financial Group Limited. He was a member of the Prime Minister's Community Business Partnership and devotes considerable time to philanthropic interests. Mr. Bailey is currently Chairman of Parousia Media Pty Ltd and has served as director of various entities including the Investment Advisory Board of the Timor Leste Petroleum Fund, the \$17bn Sovereign Wealth Fund of Timor Leste, Outward Looking International Pty Ltd, Halftime Australia Pty Ltd, Alpha Australia, Empart Inc, and Dads4Kids Fatherhood Foundation.

2. Company Secretary

Kevin Hart — Company Secretary, B.Comm, FCA
Appointed 17 April 2018

Kevin Hart is a Chartered Accountant and was appointed to the position of Company Secretary on 17 April 2018. He has over 25 years' experience in accounting and the management and administration of public listed entities in the mining and exploration industry. He is currently a partner in an advisory firm, Endeavour Corporate, which specialises in the provision of company secretarial and accounting services to ASX listed entities.

Zoe Levendel — Company Secretary, BInSt, JD and MIB
Resigned 17 April 2018

Zoe Levendel of Company Matters Pty Ltd was appointed to the position of Company Secretary on 3 July 2017 and resigned on 17 April 2018. Zoe joined the Company Matters team from Suncorp Group Limited, where she spent four years in the Legal and Secretariat team. Prior to Suncorp, Zoe was a Policy Advisory at AMA Queensland.

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DIRECTORS' REPORT

3. Directors Meetings

The number of formal meetings of the Board of Directors held during the financial year and the number of meetings attended by each director is provided below:

	Michael Masterman	Byron Pirola	Kevin Bailey
No. of board meetings held	9	9	9
No. of board meetings attended	9	8	9

The roles and responsibilities normally undertaken by the Audit and Risk Committee and the Remunerations and Nominations Committee have been dealt with by the full board as part of its duly convened meetings rather than through separate committees.

4. Principal Activities

The principal continuing activities of the Group in the course of the year were:

- The exploration for gas and oil in the Po Valley region in Italy.
- Appraisal and development of gas and oil fields.

5. Earnings per share

The basic and diluted loss per share for the Company from continuing operations was 0.33€ cents (2017: earnings 0.46€ cents).

The basic earning per share for the Company from discontinued operations was 0.78€ cents (2017: loss 0.64€ cents).

6. Operating and financial review

The net profit attributable to members of the Company of €2,573,908 is due to a net gain of €4,406,460 from discontinued operations following the restructuring of the Group and the spin-off of Coro Energy Plc (formerly Saffron Energy Plc). The loss for the year from continuing operations was €1,832,552 (2017: profit €2,692,544).

As approved by shareholders, the Company's shareholding of 100m ordinary shares in Coro Energy Plc was distributed to shareholders of the Company as a return of capital. Shareholders received 1 Coro share for every 5.9 shares held in PVE. The value of the total distribution was €4,410,847.

The Company completed a A\$2.5 million convertible note issue in June 2018, and a private placement late in December 2018 for A\$1.2 million to fund ongoing Selva, Teodorico and Torre del Moro development. Tranche 1 of the placement (18,476,191 ordinary shares raising A\$776,000) was completed on 21 December 2018 and tranche 2 (10,095,237 ordinary shares) from related parties is subject to shareholder approval at the upcoming General Meeting on 30 April 2019.

Selva Gas Field (63% PVE)

PVE was formerly granted the Selva Malvezzi preliminary production concession (80.68 km²) by the Italian Ministry, for the development of the Selva Malvezzi gas field early in January 2019.

Selva is 63%-owned by Po Valley, with the remainder owned 20% by United Oil & Gas Plc and 17% by Prospex Oil & Gas Plc. The field was a significant historic producer for Eni S.p.A, producing 2,380MMscm (84 Bcf) from 24 wells between 1956 and 1984. The Selva field is less than one kilometer from the country's national gas grid.

The Company is targeting final Selva production approvals by the first half of 2020 and to complete the well and field connection pipework with first gas targeted by late in CY20.

PO VALLEY ENERGY LIMITED DIRECTORS' REPORT

Under the first phase of the development plan for Selva, PVE will install a fully automated gas plant at the existing Selva/Podere Maiar-1dir well site and install a one-kilometre long pipeline to connect with the nearby Italian national grid. Based on dynamic reservoir studies, the field development is designed to produce, in the first phase, at a rate of up to 150,000 cubic metres (5.3mmscf/day) a day from successfully tested C1 and C2 production levels in the Medium-Upper Pilocene sands of the Porto Garibaldi Formation.

In the second phase of the development (contingent on 3D seismic results), additional wells would be drilled: a Selva gas field development well, the highly prospective Selva East, Selva South Flank, and Riccardina prospects, all of which fall within the production concession application area.

In parallel, Po Valley has completed the environmental approval documentation.

Teodorico Offshore Gas field development (100% PVE)

The Teodorico gas field is located in shallow waters of the northern Adriatic Sea – the primary source of domestic gas production for much of Italy – and in close proximity to existing off-shore gas production facilities.

Teodorico has the largest gas in place of all of Po Valley's gas fields, is at an advanced stage of assessment and is ready for development. The Company received a preliminary award of the Teodorico Production Concession in 2018 and is advanced in securing environmental approval - the main step before full grant of the Production Concession.

In the quarter to December 2018, Teodorico neared final approval, with key meetings with the Environmental Approval officials completed. PVE's target for environmental approval is for early 2019.

Torre del Moro Gas/Oil Condensate exploration (100% PVE)

Following the purchase of existing 2D seismic lines for Torre del Moro, geological and geophysical evaluations of this large gas/oil condensate prospect have advanced. This work has advanced quantitative estimates of the size of the prospective resource and target drilling location.

Cadelbosco di Sopra (85% PVE) and Grattasasso (100% PVE)

Po Valley retains the Grattasasso and Cadelbosco di Sopra licences in northern Italy following a major shareholder of Delta Energy Limited blocking completion of the proposed Delta Energy acquisition transaction. Given the higher oil price, upgraded potential of the two existing oil fields and the shallow gas development opportunities, Po Valley will now focus its attention on realising significant value from these assets.

Strategy

PVE remains a northern Italy focused energy development and exploration company with a streamlined focus on three large assets:

- The onshore gas development at Selva
- Offshore Adriatic gas development at Teodorico; and
- The large-scale gas/oil condensate exploration licence at Torre del Moro

The internal restructuring over 2017-2018 substantially streamlined the business and allowed the skilled technical team to focus on these three large high-impact gas and oil assets. The focus and progress is continuing to yield significant results.

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DIRECTORS' REPORT

Financial performance

Net loss before impairment expense is reconciled to comprehensive loss (after impairment expense) for the period as follows:

Comprehensive income reconciliation table (in Euro)	2018	2017
Net loss from continuing operations before impairment expense (unaudited)	(1,013,582)	(570,704)
Impairment of investment in associate	(816,426)	-
Exploration costs expensed	(2,544)	(413)
Net profit / (loss) from discontinued operations	4,406,460	(7,027,587)
Reversal of prior period impairment losses on resource property costs	-	3,263,661
Comprehensive income / (loss) for the year	2,573,908	(4,335,043)

Net loss from continuing operations before impairment expense, which is not reviewed or audited, is calculated to show impact of impairment losses on the total comprehensive income for the year. The net profit / (loss) from discontinued operations is a result of the restructuring of the Group and the spin-off of Coro Energy Plc (formerly Saffron Energy Plc).

Financial position

The Company completed a A\$2.5 million convertible note issue in June 2018, and a private placement late in December 2018 for A\$1.2 million to fund ongoing Selva, Teodorico and Torre del Moro development. Tranche 1 of the private placement (18,476,191 ordinary shares raising A\$776,000) was completed on 21 December 2018 and tranche 2 (10,095,237 ordinary shares) from related parties is subject to shareholder approval at the upcoming General Meeting on 30 April 2019.

Cash and cash equivalents for the Group at 31 December 2018 amounted to €515,604.

Health and safety

Paramount to PVE's ability to pursue its strategic priorities is a safe workplace and a culture of safety first. The Company regards environmental awareness and sustainability as key strengths in planning and carrying out business activities. PVE's daily operations are conducted in a way that adheres to these principles and management are committed to their continuous improvement. Whilst growing from exploration roots, the Company has strived to continually improve underlying safety performance. The Company has adopted an HSE Management System which provides for a series of procedures and routine checks (including periodical audits) to ensure compliance with all legal and regulatory requirements and best practices in this area. In 2018, PVE maintained its outstanding occupational health safety and environmental track record with no incidents or near misses to report.

Principle risks and uncertainties

Oil and gas exploration and appraisal involves significant risk. The future profitability of the Company and the value of its shares are directly related to the results of exploration and appraisal activities. There are inherent risks in these activities. No assurances can be given that funds spent on exploration and appraisal will result in discoveries that will be commercially viable. Future exploration and appraisal activities, including drilling and seismic acquisition may result in changes to current perceptions of individual prospects, leads and permits.

The Company identifies and assesses the potential consequences of strategic, safety, environmental, operational, legal, reputational and financial risks in accordance with the Company's risk management policy. PVE management continually monitors the effectiveness of the Company's risk management, internal compliance and control systems which includes insurance coverage over major operational activities, and reports to the Audit and Risk Committee on areas where there is scope for improvement. The Charter for the Audit and Risk Committee is available on the

PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT

Company's website. The principal risks and uncertainties that could materially affect PVE future performance are described below.

External risks

Exposure to gas pricing	<p>Volatile oil and gas prices make it difficult to predict future price movements with any certainty. Decline in oil or gas prices could have an adverse effect on PVE. The Company does not currently hedge its exposures to gas price movements long term. The profitability of the Company's prospective gas assets will be determined by the future market for domestic gas. Gas prices can vary significantly depending on other European gas markets, oil and refined oil product prices, worldwide supply and the terms under which long term take or pay arrangements are agreed.</p>
Changes to law, regulations or Government policy	<p>Changes in law and regulations or government policy may adversely affect PVE's business. Examples include changes to land access or the introduction of legislation that restricts or inhibits exploration and production.</p> <p>Similarly changes to direct or indirect tax legislation may have an adverse impact on the Company's profitability, net assets and cash flow.</p>
Uncertainty of timing of regulatory approvals	<p>Delays in the regulatory process could hinder the Company's ability to pursue operational activities in a timely manner including drilling exploration and development wells, to install infrastructure, and to produce oil or gas. In particular, oil and gas operations in Italy are subject to both Regional and Federal approvals.</p>

Operating risks

Exploration, development and production	<p>The future value of PVE will depend on its ability to find, develop, and produce oil and gas that is economically recoverable. The ultimate success or otherwise of such ventures requires successful exploration, establishment of commercial reserves, establishment and successful effective production and processing facilities, transport and marketing of the end product. Through this process, the business is exposed to a wide variety of risks, including failure to locate hydrocarbons, changes to reserve estimates or production volumes, variable quality of hydrocarbons, weather impacts, facility malfunctions, lack of access to appropriate skills or equipment and cost overruns.</p>
Estimation of reserves	<p>The estimation of oil and natural gas reserves involves subjective judgments and determinations based on geological, technical, contractual and economic information. It is not an exact calculation. The estimate may change because of new information from production or drilling activities.</p>
Tenure security	<p>Exploration licences held by PVE are subject to the granting and approval by relevant government bodies. Government regulatory authorities generally require the holder of the licences to undertake certain proposed exploration commitments and failure to meet these obligations could result in forfeiture. Exploration licences are also subject to partial or full relinquishments after the stipulated period of tenure if no alternative licence application (e.g. production concession application) is made, resulting in a potential reduction in the Company's overall tenure position. In order for production to commence in relation to any successful oil or gas well, it is necessary for a production concession to be granted.</p>
	<p>Exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment. Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of</p>

PO VALLEY ENERGY LIMITED DIRECTORS' REPORT

Health, safety and environmental matters

petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. Failure to manage these risks could result in injury or loss of life, damage or destruction of property and damage to the environment. Losses or liabilities arising from such incidents could significantly impact the Company's financial results.

In addition to the external and operating risks described above, the Company's ability to successfully develop future projects including their infrastructure is contingent on the Company's ability to fund those projects through operating cash flows and affordable debt and equity raisings.

7. Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2018.

8. Significant events after the balance date

Other than matters already disclosed in this report, there were no other events between the end of the financial year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

9. Likely Developments

The Company plans to seek a suitable farm-out partner for selected assets. The Company also plans to continue to invest in its current exploration portfolio through geological and geophysical studies and, subject to available finances, in its planned drilling program for high potential gas prospects.

10. Environmental Regulation

The Company's operations are subject to environmental regulations under both national and local municipality legislation in relation to its mining exploration and development activities in Italy. Company management monitor compliance with the relevant environmental legislation. The Directors are not aware of any breaches of legislation during the period covered by this report.

11. Remuneration Report - audited

The Remuneration Report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report, for the Directors and executives of the Company.

Remuneration Policy

The Board is responsible for reviewing and recommending compensation arrangements for the Directors, the Chief Executive Officer and the senior executive team. The Board assesses the appropriateness of the size and structure of remuneration of those officers on a periodic basis, with reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Company aims to ensure that the level and composition of remuneration of its Directors and executives is sufficient and reasonable in the context of the internationally competitive industry in which the Company operates.

All senior executives except the company secretary are based in Rome and when setting their remuneration, the Board must have regard to remuneration levels and benefit arrangements that prevail in the European oil and gas industry which remains highly competitive.

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DIRECTORS' REPORT

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholders wealth the Board has regard to the following indices in respect of the current financial year and the previous financial periods.

Indices	2018	2017	2016	2015	2014	2013
Production (scm'000)	2,799*	7,155	4,461	9,991	18,560	23,983
Average realised gas price (€ cents per cubic metre)	21*	19	21	25	27	28
Profit / (loss) attributable to owners of the Company (€'000s)	2,671	(1,087)	(8,699)	(6,658)	(1,262)	(5,796)
Earnings / (loss) per share (€ cents per share)	0.47	(0.19)	(2.06)	(5.02)	(1.03)	(4.76)
Share Price at year end - AU\$	0.038	0.041	0.025	0.026	0.10	0.12

** production and gas prices for 2018 relates to the period prior to restructuring of the Group and deconsolidation of Coro Energy Plc (formally Saffron Energy Plc). PVE currently does not have any producing assets.*

In establishing performance measures and benchmarks to ensure incentive plans are appropriately structured to align corporate behaviour with the long-term creation of shareholder wealth, the Board has regard for the stage of development of the Company's business and gives consideration to each of the indices outlined above and other operational and business development achievements of future benefit to the Company which are not reflected in the aforementioned financial measures.

Senior Executives and Executive Directors

The remuneration of PVE senior executives is based on a combination of fixed salary, short term incentive bonus' which is based on performance and in some cases a long term incentive payable in cash or shares. Other benefits include employment insurances, accommodation and other benefits, and superannuation contributions. In relation to the payment of annual bonuses, the board assesses the performance and contribution of executives against a series of objectives defined at the beginning of the year. These objectives are a combination of strategic and operational company targets which are considered critical to shareholder value creation and objectives which are specific to the individual executive. More specifically, objectives mainly refer to operating performance from both a financial and technical standpoint and growth and development of the Company's asset base. The Board exercises its discretion when determining awards and exercises discretion having regard to the overall performance and achievements of the Company and of the relevant executive during the year. No remuneration consultants were used during the current or previous year.

Non-Executive Directors

The remuneration of PVE Non-Executive Directors comprises cash fees. There is no current scheme to provide performance-based bonuses or retirement benefits to Non-Executive Directors. The Board of Directors and shareholders approved the maximum agreed remuneration pool for Non-Executive Directors at the annual general meeting in May 2011 at €250,000 per annum.

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DIRECTORS' REPORT**

Service contracts

The major provisions of the service contracts held with the specified directors and executives, in addition to any performance related bonuses and/or options are as follows:

Directors:

Michael Masterman, Chairman and Chief Executive Officer

- Commencement Date: 22 June 1999
- Fixed remuneration for the year ended 31 December 2018: €140,000 p.a.
- Benefit of €2,500 per month for accommodation
- No termination benefits

Byron Pirola, Non-Executive Director

- Commencement Date: 10 May 2002
- Fixed remuneration for the year ended 31 December 2018: €14,790 (A\$24,000)
- No termination benefits

Kevin Bailey, Non-Executive Director

- Commencement Date: 3 May 2016
- Fixed remuneration for the year ended 31 December 2018: €14,790 (A\$24,000)
- No termination benefits

The Non-Executive Directors are not appointed for any fixed term but rather are required to retire and stand for re-election in accordance with the Company's constitution and the ASX Listing Rules.

**PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT**

Key Management Personnel remuneration outcomes (including link to performance)

The remuneration details of each Director and other Key Management Personnel (KMP) during the year is presented in the table below.

Directors		Salary & fees	Other	Termination	Total
		€	€	payments	€
M Masterman Chairman and Chief Executive Officer	2018	129,500	30,000	-	159,500
	2017	109,810	5,000	-	114,810
B Pirola Non-Executive	2018	14,790	-	-	14,790
	2017	15,600	-	-	15,600
K Bailey Non-Executive	2018	14,790	-	-	14,790
	2017	21,071	-	-	21,071
Total for Directors	2018	159,080	30,000	-	189,080
	2017	146,481	5,000	-	151,481

**PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT**

	Short term										Proportion of remuneration performance related %	
	Salary & fees €	Car €	Other €	Total Base €	Share based payments €	STI Cash €	Total Short-term €	Termination payments €	Defined contribution plan €	Total €		
KMP												
Sara Edmondson ⁽¹⁾	2018	58,073	1,500	-	59,573	-	19,230	78,803	-	9,847	88,650	22%
	2017	151,538	6,124	-	157,662	57,090	-	214,752	-	21,989	236,741	24%*
Total for KMP	2018	77,303	1,500	-	78,803	-	19,230	78,803	-	9,847	88,650	
	2017	151,538	6,124	-	157,662	57,090	-	214,752	-	21,989	236,741	
Total Directors and KMP	2018	217,153	1,500	30,000	248,653	-	19,230	267,883	-	9,847	277,730	
	2017	298,019	6,124	5,000	309,143	57,090	-	366,233	-	21,989	388,222	

⁽¹⁾Sara Edmondson was Chief Executive officer of Po Valley Energy Ltd up to 31 October 2017 and then appointed as Chief Executive Officer of Coro Energy Plc (formerly Saffron Energy Plc) ("Coro"). The remuneration in the table above for 2018 represents remuneration up to the date that the Company completed the restructuring of the Group and spin-off of Coro (refer note 7).

*% of remuneration that is share based is 24%

**PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT**

Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive bonus awarded as remuneration are detailed below.

Directors and executives	2018			2017		
	Cash Bonus €	Share based payment Bonus €	% vested in year	Cash Bonus €	Share based payment Bonus €	% vested in year
S Edmonson ⁽¹⁾	19,230	-	-	-	57,090*	100%

⁽¹⁾Sara Edmondson was Chief Executive officer of Po Valley Energy Ltd up to 31 October 2017 and then appointed as Chief Executive Officer of Coro Energy Plc (formerly Saffron Energy Plc) ("Coro"). The amounts in the table above for 2018 represents remuneration up to the date that the Company completed the restructuring of the Group and spin-off of Coro (refer note 7).

Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified operational performance criteria. No amounts vest in future financial years in respect of the bonus. The bonus awarded to Ms. Edmonson was based on performance, and specifically for having reached the agreed operational strategic objectives. These performance objectives are linked to financial performance and Company value indirectly.

Options over equity instruments granted as compensation

No options were granted as compensation to Directors or key management personnel during the reporting period (2017: Nil). No options vested during 2018. (2017: Nil)

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise and lapse of options granted as compensation

No options granted as compensation were exercised during 2018.

There were no options outstanding during 2018.

No options were exercised by directors or key management personnel.

No options over ordinary shares in the Company were held by any key management personnel during 2018.

**PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT**

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company, held directly and indirectly by key management personnel, including their personally-related entities is as follows:

	Held at 31 Dec 2017	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2018
Directors						
M Masterman ⁽ⁱ⁾	156,692,994	-	-	-	-	156,692,994
B Pirola	59,494,135	-	-	-	-	59,494,135
K Bailey	132,728,169	-	-	-	-	132,728,169
	348,915,298	-	-	-	-	348,915,298
Executives						
S. Edmonson	2,966,406 ⁽ⁱⁱⁱ⁾	-	-	-	-	2,966,406 ⁽ⁱⁱ⁾
	2,966,406	-	-	-	-	2,966,406

⁽ⁱ⁾ Does not include shares held by family members which amount to 1,040,000 shares

⁽ⁱⁱ⁾ Sara Edmondson was Chief Executive officer of Po Valley Energy Ltd up to 31 October 2017 and then appointed as Chief Executive Officer of Coro Energy Plc (formerly Saffron Energy Plc) ("Coro"). Shares in the table above were held at the time of restructuring of the Group (refer note 7).

	Held at 31 Dec 2016	Purchased	Share based payments	Options Exercised	Sold / Other	Held at 31 Dec 2017
Directors						
M Masterman ⁽ⁱ⁾	147,602,085	9,090,909	-	-	-	156,692,994
B Pirola	56,818,518	2,675,617	-	-	-	59,494,135
K Bailey	117,230,533	15,497,636	-	-	-	132,728,169
	321,651,136	27,264,162	-	-	-	348,915,298
Executives						
S. Edmonson	1,148,224	1,818,182	-	-	-	2,966,406
	1,148,224	1,818,182	-	-	-	2,966,406

Other transactions and balances with KMP and their related parties

During 2016 the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors of the Company. Refer to Note 24 for further details.

The amounts outstanding at 31 December 2018 are as follows:

**PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT**

Related Party	Loan Amount 2018	Loan Amount 2017	Interest	Repayment Term
Beronia Investments Pty Ltd	A\$236,181	A\$236,181	10% p.a.	12 months
Beronia Investments Pty Ltd	A\$459,696	A\$227,238	10% p.a.	6 months
Beronia Investments Pty Ltd	A\$395,000	-	10% p.a.	6 months
Kevin Bailey	A\$237,305	A\$237,305	10% p.a.	6 months
Fuiloro Pty Ltd	A\$6,191	A\$6,191	10% p.a.	12 months
Fuiloro Pty Ltd	A\$240,000	-	10% p.a.	6 months
G. Bradley	A\$94,927	A\$94,927	10% p.a.	12 Months
Symmall Pty Ltd	A\$90,000	-	10% p.a.	6 months
Beronia Investments Pty Ltd	A\$100,000	-	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	A\$100,000	-	10% p.a.	6 months

No key management personnel have entered into a material contract, other than disclosed above, with the Group or the Company since the year end of the previous financial year end and there were no material contracts involving key management personnel interests existing at year-end.

12. Directors' interests

At the date of this report, the direct and indirect interests of the Directors in the shares and options of the Company, as notified by the Directors to the ASX in accordance with S205G (1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares	Convertible Notes
M Masterman	156,692,994	300,000
B Pirola	54,494,135	-
K Bailey	132,728,169	700,000

13. Share Options

Options granted to directors and executives of the Company

The Company has not granted any options over unissued ordinary shares in the Company to any directors or specified executive during or since the end of the financial year.

Unissued shares under option

At the date of this report there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

The Company has not issued any shares as a result of the exercise of options during or since the end of the financial year end.

14. Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of PVE support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the ASX Corporate Governance Council and considers that PVE is in compliance with those guidelines which are of importance to the commercial operation of a junior listed gas exploration and production company.

PO VALLEY ENERGY LIMITED
DIRECTORS' REPORT

The Company has elected to publish its Statement of Corporate Governance Practices on its website www.povalley.com. In addition, each year the Key to Disclosures - Corporate Governance Council Principles and Recommendations will be available to shareholders at the same time this report is released.

15. Indemnification and insurance of officers

The Company has agreed to indemnify current Directors against any liability or legal costs incurred by a Director as an officer of the Company or entities within the Group or in connection with any legal proceeding involving the Company or entities within the Group which is brought against the Director as a result of his capacity as an officer.

During the financial year the Company paid premiums to insure the Directors against certain liabilities arising out of the conduct while acting on behalf of the Company. Under the terms and conditions of the insurance contract, the nature of liabilities insured against and the premium paid cannot be disclosed.

16. Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Bentleys NSW Audit Pty Ltd, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Bentleys NSW Audit Pty Ltd during or since the financial year.

17. Non audit services

During the year Bentleys NSW Audit Pty Ltd, the Group's auditor, did not provide non-audit services. Refer to note 5 of the financial report for details of auditor's remuneration.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

18. Proceedings on behalf of the Company

No person has applied for leave of Court, pursuant to section 237 of the Corporations Act 2001, to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

20. Lead Auditor's independence declaration

The lead auditor's independence declaration is set out on page 17 and forms part of the Directors' report for the financial year ended 31 December 2018.

This report has been made in accordance with a resolution of Directors.



Michael Masterman
Chairman
Sydney, NSW Australia
29 March 2019

Bentleys NSW Audit Pty Ltd

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Po Valley Energy Limited

ABN: 33 087 741 571

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Po Valley Energy Limited

As lead auditor for the audit of Po Valley Energy Limited for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



BENTLEYS NSW AUDIT PTY LTD



ROBERT EVETT

Director
Sydney

29 March 2019

PO VALLEY ENERGY LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	NOTES	CONSOLIDATED	
		2018 €	2017 €
Current Assets			
Cash and cash equivalents	10	515,604	390,114
Trade and other receivables	11	499,780	2,292,724
Total Current Assets		<u>1,015,384</u>	<u>2,682,838</u>
Non-Current Assets			
Inventory		-	252,034
Other assets		27,455	100,031
Deferred tax assets	14	744,040	2,598,509
Property, plant & equipment	12	9,602	2,158,869
Resource property costs	13	7,704,644	9,341,801
Total Non-Current Assets		<u>8,485,741</u>	<u>14,451,244</u>
Total Assets		<u>9,501,125</u>	<u>17,134,082</u>
Liability and equity			
Current Liabilities			
Trade and other payables	15	1,122,845	4,739,681
Provisions	16	2,756	58,270
Interest bearing loans	17	1,201,258	526,892
Total Current Liabilities		<u>2,326,859</u>	<u>5,324,843</u>
Non-Current Liabilities			
Provisions	16	-	4,802,873
Convertible notes	18	1,531,250	-
Total Non-Current Liabilities		<u>1,531,250</u>	<u>4,802,873</u>
Total Liabilities		<u>3,858,109</u>	<u>10,127,716</u>
Equity			
Issued capital	19	45,531,416	49,462,268
Reserve	19	1,192,269	1,192,269
Accumulated losses		(41,080,669)	(43,860,729)
Minority interests		-	212,558
Total Equity		<u>5,643,016</u>	<u>7,006,366</u>
Total Equity and liabilities		<u>9,501,125</u>	<u>17,134,082</u>

The above statement of financial position should be read in conjunction with the accompanying notes to the financial statements.

PO VALLEY ENERGY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

		CONSOLIDATED	
	NOTES	2018	2017
		€	€
Continuing Operations			
Other income		161,563	330,471
Employee benefit expenses	3	(577,570)	(310,831)
Depreciation expense		(1,067)	(1,996)
Corporate overheads	4	(651,169)	(339,543)
Impairment losses		(816,426)	3,263,661
Exploration costs expensed		(2,544)	(413)
Profit / (loss) from operating activities		(1,887,213)	2,941,349
Finance income	6	286	97
Finance expenses	6	(85,797)	(163,051)
Net finance expenses		(85,511)	(162,954)
Loss before tax		(1,972,724)	2,778,395
Income tax (expense) / benefit	8	140,172	(85,851)
Loss for the year		(1,832,552)	2,692,544
Discontinued Operations			
Profit / (loss) for the period from discontinued operations	7	4,406,460	(7,027,587)
Profit / (loss) for the period		2,573,908	(4,335,043)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		2,573,908	(4,335,043)
Profit / (loss) attributable to:			
Members of the Company		2,780,060	(1,087,609)
Non-controlling interests		(206,152)	(3,247,434)
Profit / (loss) for the period		2,573,908	(4,335,043)
Total comprehensive loss attributable to:			
Members of the Company		2,780,060	(1,087,609)
Non-controlling interests		(206,152)	(3,247,434)
Total comprehensive income / (loss) for the period		2,573,908	(4,335,043)
Basic and diluted earnings / (loss) per share (€)			
from continuing operations	9	(0.31)	0.46
from discontinued operations	9	0.78	(0.64)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

PO VALLEY ENERGY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

Consolidated	Attributable to equity holders of the Company					Total €
	Issued capital €	Translation Reserve €	Accumulated Losses €	Non- controlling Interests €		
Balance at 1 January 2017	48,659,337	1,192,269	(42,773,120)	-	-	7,078,486
Total comprehensive income:						
Loss for the year	-	-	(1,087,609)	(3,247,434)		(4,335,043)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss	-	-	(1,087,609)	(3,247,434)		(4,335,043)
Transactions with owners recorded directly in equity:						
Issue of shares	441,843	-	-	3,459,992		3,901,835
Share based payments	361,088	-	-	-		361,088
Balance at 31 December 2017	49,462,268	1,192,269	(43,860,729)	212,558		7,006,366
Balance at 1 January 2018	49,462,268	1,192,269	(43,860,729)	212,558		7,006,366
Total comprehensive income:						
Profit / (loss) for the year	-	-	2,780,060	(206,152)		2,573,908
Other comprehensive income	-	-	-	-		-
Total comprehensive income	-	-	2,780,060	(206,152)		2,573,908
Transactions with owners recorded directly in equity:						
Return of capital	(4,410,847)	-	-	-		(4,410,847)
Issue of shares (net of costs)	479,995	-	-	-		479,995
Non-controlling interest on disposal of subsidiary	-	-	-	(6,406)		(6,406)
Balance at 31 December 2018	45,531,416	1,192,269	(41,080,669)	-		5,643,016

The above statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

PO VALLEY ENERGY LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	NOTES	CONSOLIDATED	
		2018 €	2017 €
Operating activities			
Payments to suppliers and employees		(1,281,537)	(494,187)
Interest received		286	97
Interest paid		(13,470)	(28,055)
Net operating cash flows used in discontinued operations		(164,730)	(1,885,848)
Net cash used in operating activities	10	(1,459,451)	(2,407,993)
Investing activities			
Payments for non-current assets			-
Receipts for resource property costs from joint operations partners		1,742,693	1,135,225
Payments for resource property costs		(2,748,836)	(1,431,397)
Net investing cash flows used in discontinued operations		(927,652)	(612,521)
Net cash flows used in investing activities		(1,933,795)	(908,693)
Financing activities			
Proceeds from the issues of shares		483,009	444,377
Payment of share issue costs		(3,015)	(2,534)
Proceeds from convertible notes	18	1,580,038	-
Proceeds from borrowings	17	731,719	341,939
Net financing cash flows provided by discontinued operations		726,985	2,756,559
Net cash flows from financing activities		3,518,736	3,540,341
Net increase in cash and cash equivalents		125,490	223,655
Cash and cash equivalents at 1 January		390,114	166,459
Cash and cash equivalents at 31 December	10	515,604	390,114

The above statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 REPORTING ENTITY

Po Valley Energy Limited (“the Company” or “PVE”) is a company domiciled in Australia. The address of the Company’s registered office is Suite 8, 7 The Esplanade Mt Pleasant WA 6153.

The Consolidated Financial Statements of the Company for the year ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities and operations.

The financial statements were approved by the Board of Directors on 29 March 2019.

The Group primarily is involved in the exploration, appraisal and development of gas properties in the Po Valley region in Italy and is a for profit entity.

1.2 BASIS OF PREPARATION

(a) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB’s) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group also complies with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

(b) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the basis of historical cost.

(c) GOING CONCERN

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the year ended 31 December 2018, the Group has recorded a loss after tax from continuing operations of €1,832,552; it has a cash balance of €515,604 net current liabilities of €1,311,475 and had net cash outflows from continuing operations of €1,294,722.

The Directors are currently reviewing a range of financing options which may include the further issue of new equity, convertible debt, sale of operating or non-operating interests in assets or a combination of these and other funding instruments and options. The Directors have reviewed the Group’s cashflow requirements for the 15 months ended 31 March 2020 and are of the opinion that sufficient funds will be available in order to meet its ongoing obligations.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro, which is the Company's and each of the Group entity's functional currency.

(e) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-current assets

The ultimate recoupment of the value of resource property costs and property plant and equipment is dependent on successful development and commercial exploitation, or alternatively, sale, of the underlying properties. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. Should an impairment indicator exist, the area of interest or CGU is tested for impairment. There is significant estimation involved in determining the inputs and assumptions used in determining the recoverability amounts.

The key areas of estimation involved in determining recoverable amounts include:

- Recent drilling results and reserves and resources estimates
- Environmental issues that may impact the underlying licences
- The estimated market value of assets at the review date
- Fundamental economic factors such as the gas price and current and anticipated operating costs in the industry
- Future production rates

The post-tax discount rate used for impairment purposes is 10%.

Rehabilitation provisions

The value of these provisions represents the discounted value of the present obligations to restore, dismantle and rehabilitate each well site. Significant estimation is required in determining the provisions for rehabilitation and closure as there are many transactions and other factors that will affect ultimate costs necessary to rehabilitate the sites. The discounted value reflects a combination of management's best estimate of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination of, the key assumptions used to determine the provisions could have a material impact on the carrying value of the provisions. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at that time. Changes to the estimated future costs for operating sites are recognised in the balance sheet by adjusting both the restoration and rehabilitation asset and provision.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Reserve estimates

Estimation of reported recoverable quantities of Proven and Probable reserves include estimates regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period.

A change in any, or a combination of, the key assumptions used to determine the reserve estimates could have a material impact on the carrying value of the project via depreciation rates or impairment assessments. The reserve estimates are reviewed at each reporting date and any changes to the estimated reserves are recognised prospectively to depreciation and amortisation. Any impact of the change in the reserves is considered on asset carrying values and impairment losses, if any, are immediately recognised in the profit or loss.

Recognition of deferred tax assets

The recoupment of deferred tax assets is dependent on the availability of profits in future years. The Group undertakes a forecasting exercise at each reporting date to assess its expected utilisation of these losses.

The key areas of estimation involved in determining the forecasts include:

- Future production rates
- Economic factors such as the gas price and current and anticipated operating costs in the industry
- Capital expenditure expected to be incurred in the future

A change in any, or a combination of, the key assumptions used to determine the estimates could have a material impact on the carrying value of the deferred tax asset. Changes to estimates are recognised in the period in which they arise.

1.3 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies set out in notes 1.3 (a) to 1.3 (q) to all periods presented in the consolidated financial statements.

New and amended standards adopted by the group

AASB9 *Financial Instruments* and AASB15 *Revenue from Contracts with Customers* became applicable to the current reporting period. The adoption of these standards did not require any restatement of prior year comparatives as the application of these standards did not have a material impact on the financial report.

(a) PRINCIPLES OF CONSOLIDATION**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Investments in subsidiaries are carried at cost less any impairment losses.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(ii) Joint arrangements

The Group classifies its interests in joint arrangements as either joint operations or joint ventures (see below) depending on the Group's rights to the assets and obligation for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operation - when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Group has rights only to the net assets of the arrangement, it accounts for its interest using the equity method adopted for associates.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Judgement is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgement is also required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves,

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(c) IMPAIRMENT**Non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset (or CGU) may be impaired. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (12.7%) that reflects current market assessments of the time value of money and the risks specific to the asset/CGU.

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss and other comprehensive income.

(d) PROPERTY, PLANT AND EQUIPMENT**(i) Recognition and measurement**

Items of property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and pre-commissioning revenue and expenses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

The cost of plant and equipment used in the process of gas extraction are accounted for separately and are stated at cost less accumulated depreciation and impairment costs.

Cost includes expenditure that is directly attributable to acquisition of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within “other income” in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with expenditure will flow to the Group.

(iii) Depreciation

Gas producing assets

When the gas plant and equipment is installed ready for use, cost carried forward will be depreciated on a unit-of-production basis over the life of the economically recoverable reserve.

Oil and gas properties are depreciated using the UOP method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field.

The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues.

Other property, plant and equipment

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation will commence when the asset is installed ready for use.

The estimated useful lives of each class of asset fall within the following ranges:

	2018	2017
Office furniture & equipment	3 – 5 years	3 – 5 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at each reporting date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(e) FINANCIAL INSTRUMENTS**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable), except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted. Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement of financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

Classification and subsequent measurement of financial liabilities

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: *Business Combinations* applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

Compound financial instruments

Compound instruments (convertible notes) issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the arrangements. An option that is convertible and that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments will be classified as equity.

The fair value of the liability component is estimated on date of issue. This is done by using the prevailing market interest rate of the same kind of instrument. This amount is recognised using the effective interest method as a liability at amortised cost until conversion or the end of life of the instrument. The equity portion is calculated by deducting the liability amount from the fair value of the instrument as a whole. The equity portion is not remeasured after initial recognition. Equity will remain as such until the option is exercised. When the option is exercised a corresponding amount will be transferred to share capital. If the option lapses without the option being exercised the balance in equity will be recognised in profit or loss.

Costs of the transaction of the issue of convertible instruments are proportionally allocated to the equity and liability. Transaction costs in regards to the liability are included in the carrying amount of the liability and are amortised over its life using the effective interest method. Transaction cost in equity is directly recognised in equity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Impairment

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: *Financial Instruments*:

- the general approach
- the simplified approach
- the purchased or originated credit impaired approach; and
- low credit risk operational simplification.

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (e.g. loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

(f) INVENTORIES

Inventories are measured at the lower of cost and net realisable value and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price less selling expenses.

(g) RESOURCE PROPERTIES

Resource property costs related to drilling are accumulated in respect of each separate area of interest.

Exploration properties

Exploration properties are carried at balance sheet date at cost less accumulated impairment losses. Exploration properties include the cost of acquiring resource properties, mineral rights and exploration, evaluation expenditure incurred subsequent to acquisition of an area of interest.

Exploration properties are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying value amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration license in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for an evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specific area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Areas of interest which no longer satisfy the above policy are considered to be impaired and are measured at their recoverable amount, with any subsequent impairment loss recognised in the profit and loss.

Development properties

Development properties are carried at balance sheet date at cost less accumulated impairment losses. Development properties represent the accumulation of all exploration, evaluation and acquisition costs in relation to areas where the technical feasibility and commercial viability of the extraction of gas resources in the area of interest are demonstrable and all key project permits, approvals and financing are in place.

When there is low likelihood of the development property being exploited, or the value of the exploitable development property has diminished below cost, the asset is written down to its recoverable amount.

Production properties

Production properties are carried at balance sheet date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation and development and acquisition costs in relation to areas of interest in which production licences have been granted and the related project has moved to the production phase.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being performed for each area of interest. The unit-of-production base results in an amortisation charge proportional to the depletion of economically recoverable reserves.

Amortisation of resource properties commences from the date when commercial production commences.

When the value of the exploitable production property has diminished below cost, the asset is written down to its recoverable amount.

The Group reviews the recoverable amount of resource property costs at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated (refer Note 1.3 (c) (ii)).

(h) PROVISIONS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Rehabilitation costs

Long term environmental obligations are based on the Group's environmental and rehabilitation plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbances that have occurred up to the balance sheet date and abandonment of well sites and production fields. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and recorded in resource property costs, and amortised over the remaining useful lives of the areas of interest. The net present value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the liability.

Annual increases in the provision relating to the unwinding of the discount rate are accounted for in the statement of profit or loss as finance expense.

The estimated costs of rehabilitation are reviewed annually and adjusted against the relevant rehabilitation asset, as appropriate for changes in legislation, technology or other circumstances including drilling activity and are accounted for on a prospective basis. Cost estimates are not reduced by potential proceeds from the sale of assets.

(i) FINANCE INCOME AND EXPENSES

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings or other payables and unwinding of the discount of provisions and changes in the fair value of financial assets through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported as net amounts.

(j) EMPLOYEE BENEFITS**(i) Long-term service benefits**

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including on-costs and expected settlement dates, and is discounted using the rates attached to the Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****(iii) Superannuation**

The Group contributes to defined contribution superannuation plans. Contributions are recognised as an expense as they are due.

(k) FOREIGN CURRENCY**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is PVE functional and presentation currency (refer note 1.2 (d)).

(ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as finance income or expense.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the date of transaction or the date fair value was determined, if these assets and liabilities are measured at fair value. Foreign currency differences arising on retranslation are recognised in profit and loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Foreign exchange gains and losses arising from monetary items receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(l) EARNINGS/LOSS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Diluted EPS is calculated by dividing the net profit attributable to members of the parent entity, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(m) OTHER INDIRECT TAXES

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) and value added tax (VAT) except where the amount of GST or VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST or VAT included. The net amount of GST or VAT recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis. The GST and VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(n) SEGMENT REPORTING**DETERMINATION AND PRESENTATION OF OPERATING STATEMENTS**

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and resource property costs.

(o) REVENUE

Revenue is measured at the fair value of the consideration received or receivable, net of the amount of value added tax ("VAT") payable to the taxation authority. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

Sale of gas

Gas sales revenue is recognised when control of the gas passes at the delivery point. Proceeds received in advance of control passing are recognised as unearned revenue.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(p) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the property, plant and equipment accounting policy.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

(q) **CHANGES IN ACCOUNTING POLICIES, DISCLOSURES, STANDARDS AND INTERPRETATIONS**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2018 are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 16	Leases	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <p>Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</p> <p>AASB 16 contains disclosure requirements for lessees.</p> <p>Lessor accounting</p> <p>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>AASB 116 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</p> <p>AASB 16 supersedes:</p> <ul style="list-style-type: none"> a) AASB 117 Leases; b) Interpretation 4 Determining whether an Arrangement contains a Lease; c) Interpretation 115 Operating Leases—Incentives; and d) Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	<p>The Group is party to a number of small operating lease arrangements, such as the lease of its office premises, and as such its exposure to the requirements of AASB 16 Leases is limited.</p> <p>Whilst there will be a material change in relation to the accounting of the office lease, it will not materially impact the overall net asset position of the Group.</p>	1 January 2019

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 2: FINANCIAL RISK MANAGEMENT

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk recognition and management are viewed as integral to the Group's objectives of creating and maintaining shareholder value, and the successful execution of the Group's strategies in gas exploration and development. The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit and Risk Committee. Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

(i) Credit risk

The Group invests in short term deposits and trades with recognised, creditworthy third parties.

Cash and short-term deposits are made with institutions that have a credit rating of at least A1 from Standard & Poor's and A from Moody's.

Management has a credit policy in place whereby credit evaluations are performed on all customers and parties the Company and its subsidiaries deal with. The exposure to credit risk is monitored on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(ii) Market Risk

Interest rate risk

The Group is primarily exposed to interest rate risk arising from its cash and cash equivalents and borrowings. The Group does not hedge its exposure to movements in market interest rates. The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in bank accounts earning interest.

Currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currencies of consolidated entities. The currency giving rise to this risk is primarily Australian dollars.

In respect to monetary assets held in currencies other than Euro, the Group ensures that the net exposure is kept to an acceptable level by minimising their holdings in the foreign currency where possible by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

(iii) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of issued share capital plus accumulated losses/earnings. The Board monitors accumulated losses/earnings.

The Board seeks to encourage all employees of the Group to hold ordinary shares.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position from shareholders.

The Group does not have a defined share buy-back plan and there were no changes in the Group's approach to capital management during the year.

There are no externally imposed restrictions on capital management.

(iv) Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Management prepares monthly cash flow forecasts taking into consideration debt facility obligations. Capital expenditures are planned around cash flow availability.

	CONSOLIDATED	
	2018	2017
	€	€
NOTE 3: EMPLOYEE BENEFIT EXPENSES		
Wages and salaries	502,368	257,650
Contributions to defined contribution plans	75,202	53,181
	577,570	310,831

NOTE 4: CORPORATE OVERHEADS		
Corporate overheads comprises:		
Company administration and compliance	101,522	54,078
Professional fees	357,611	207,677
Office costs	105,588	15,929
Travel and entertainment	66,697	49,240
Other expenses	19,751	12,619
	651,169	339,543

NOTE 5: AUDITORS' REMUNERATION		
<i>Auditors of the Company: Bentleys NSW Audit Pty Ltd</i>		
Audit and review of the Group financial statements	26,581	22,638
For corporate tax services	-	10,718
	26,581	33,356
<i>Auditors of the Subsidiary entity: EY S.p.A</i>		
Audit and review of the subsidiary financial statements	8,000	3,150
For corporate tax services	15,600	-
For other services	16,800	-
	40,400	3,150

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

CONSOLIDATED

	2018 €	2017 €
NOTE 6: FINANCE INCOME AND EXPENSE		
Recognised in profit and loss:		
Interest income	286	97
Finance income	286	97
Interest expense	169,200	115,105
Foreign exchange (gains) / losses (net)	(83,403)	47,946
Finance expense	85,797	163,051
Net finance expense	(85,511)	(162,954)

NOTE 7: DISCONTINUED OPERATIONS

During the period, PVE completed the restructuring and spin-off of its subsidiary Saffron Energy Plc, now Coro Energy Plc (“Coro”). On 9 April 2018, Coro acquired Sound Energy Italy and completed a GBP14 million capital raise, thereby diluting the Company’s 100m shareholding in Coro to 13.92%, and with no members on the Board of Coro, this has resulted in deconsolidation of Coro from the Group results. An effective date for accounting purposes of 31 March 2018 has been used for the deconsolidation given the level of operating transactions between this date and 9 April 2018 were immaterial.

	2018 €	2017 €
<i>Net assets of discontinued operation at the date of loss of control</i>		
The carrying amount of assets and liabilities as at the date of deconsolidation were:		
Cash and cash equivalents	496,589	365,397
Trade and other receivables	1,696,458	663,560
Inventory	252,034	252,034
Other non-current assets	79,685	72,453
Deferred tax assets	1,994,913	1,994,913
Property plant and equipment	2,097,515	2,148,200
Resource property costs	2,404,528	2,271,285
Trade and other payables	(3,100,666)	(2,100,238)
Provisions – current	(37,510)	(37,510)
Provisions – non-current	(4,827,080)	(4,802,874)
Net assets of discontinued operation	1,056,466	827,220

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 7: DISCONTINUED OPERATIONS (continued)

	CONSOLIDATED	
	2018	2017
	€	€
<i>Financial performance from discontinued operation</i>		
The financial performance presented for the 3 months ended 31 March 2018 was as follows:		
Revenue	584,676	1,389,196
Operating expenses	(207,589)	(1,116,958)
Depreciation and amortisation expense	(55,784)	(256,470)
Gross profit	321,303	15,768
Other income	3,927	35,999
Administrative and corporate expenses	(664,230)	(1,982,638)
Net finance costs	(73,303)	(253,049)
Impairment losses	-	(4,843,667)
Loss from discontinued operations	(412,303)	(7,027,587)
Gain on deconsolidation of discontinued operations	4,818,763	-
Profit / (loss) from discontinued operations before tax	4,406,460	(7,027,587)
Income tax expense	-	-
Profit / (loss) from discontinued operations	4,406,460	(7,027,587)
Profit / (loss) attributable to members of the Company	4,612,612	(3,780,153)
Profit / (loss) attributable to Non-controlling interests	(206,152)	(3,247,434)
Net profit from discontinued operations	4,406,460	(7,027,587)
	2018	2017
	€	€
<i>Cash flows from discontinued operation</i>		
The net cash flows from discontinued operations were as follows:		
Net cash used in operations	(164,730)	(1,885,848)
Net cash used in investing activities	(431,063)	(612,521)
Net cash and cash equivalents disposed of	(496,589)	-
Net cash provided by financing activities	726,985	2,756,559
	(365,397)	258,190

The Company obtained shareholder approval to distribute the 100m shares it held in Coro to shareholders as a return of capital. Shareholders received 1 Coro share for every 5.9 shares held in PVE. The fair value of the distribution was determined as the closing market price of the Coro shares on the record date for distribution. The Coro share price on that date was €0.0441 (GBP0.03875) per share. The total value of the distribution to shareholders was €4,410,847. The decrease in value of shares held at the record date for distribution has been recognised as an impairment of €816,426 in the statement of profit and loss and other comprehensive income.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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	CONSOLIDATED	
	2018	2017
	€	€
NOTE 8: INCOME TAX (BENEFIT) / EXPENSE		
Current tax		
Current year	-	-
Deferred tax		
Origination and reversal of temporary differences	(140,172)	85,851
Deferred tax (benefit) / expense	(140,172)	85,851
Total income tax (benefit) / expense	(140,172)	85,851
Numerical reconciliation between tax expense and pre-tax accounting profit / (loss)		
Profit / (loss) for the year before tax from continuing operations	(1,972,724)	2,778,395
Income tax (benefit) / expense using the Company's domestic tax rate of 27.5 per cent (2017: 27.5%)	(542,500)	764,059
Non-deductible expenses:		
Fair value adjustments	224,517	(1,151,684)
Other	14,928	(34,231)
Effect of tax rates in foreign jurisdictions	24,015	7,034
Current year losses and temporary differences for which no deferred tax asset was recognised	115,382	362,611
Changes in temporary differences	23,486	3,983
Income tax (benefit) / expense	(140,172)	85,851
NOTE 9: EARNINGS PER SHARE		
Basic and diluted earnings / (loss) per share (€ cents) from continuing operations	(0.31)	0.46
Basic and diluted earnings / (loss) per share (€ cents) from discontinued operations	0.78	(0.64)

The calculation of basic and diluted loss per share from continuing operations was based on the loss attributable to shareholders of €1,832,552 (2017: Profit €2,692,544 and a weighted average number of ordinary shares outstanding during the year of 593,766,325 (2017: 587,519,266)).

The calculation of basic and diluted earnings per share from discontinued operations was based on the profit attributable to members of €4,612,612 (2017: Loss €3,780,153) and a weighted average number of ordinary shares outstanding during the half year of 593,766,325 (2017: 587,519,266).

Diluted earnings / (loss) per share is the same as basic earnings / (loss) per share.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 9: EARNINGS PER SHARE (continued)

		CONSOLIDATED	
		2018	2017
		Weighted	Weighted
		average no.	average no.
The number of weighted average shares is calculated as follows:	No. of days		
Number of shares on issue at beginning of the year	365	593,260,128	550,378,091
18,476,190 shares issued on 21 December 2018	10	506,197	
14,526,966 shares issued on 5 April 2017	271	-	11,998,448
28,355,071 shares issued on 7 June 2017	208	-	25,142,727
		<u>593,766,325</u>	<u>587,519,266</u>
		2018	2017
		€	€

NOTE 10: CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents		515,604	390,114
(b) Reconciliation of cash flows from operating activities			
Profit / (loss) for the year		2,573,908	(4,355,043)
<u>Adjustment for non-cash items:</u>			
Depreciation and amortisation		1,067	1,996
Impairments		816,426	(3,263,661)
Profit from discontinued operations		(4,406,460)	7,027,587
<u>Change in operating assets and liabilities:</u>			
Decrease in receivables		(100,758)	(115,191)
Decrease in trade and other payables		(20,728)	179,727
(Decrease)/Increase in provisions		(18,004)	2,440
(Increase)/Decrease in deferred tax assets		(140,172)	
Cash flows used in discontinued operations		(164,730)	(1,885,848)
Net cash inflow from operating activities		<u>(1,459,451)</u>	<u>(2,407,993)</u>

NOTE 11: TRADE AND OTHER RECEIVABLES

Current			
Trade receivables		205,605	1,243,696
Accrued gas sales revenue		-	158,507
Sundry debtors		4,443	70,697
Deposit		-	7
Indirect taxes receivable		289,732	819,817
		<u>499,780</u>	<u>2,292,724</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

	CONSOLIDATED	
	2018	2017
	€	€
NOTE 12: PROPERTY PLANT & EQUIPMENT		
Office Furniture & Equipment:		
<i>At cost</i>	24,576	221,843
<i>Accumulated depreciation</i>	(14,974)	(203,585)
	9,602	18,258
Gas producing plant and equipment		
<i>At cost</i>	-	8,509,086
<i>Accumulated depreciation and impairment losses</i>	-	(6,368,475)
	-	2,140,611
	9,602	2,158,869
Reconciliations:		
Reconciliation of the carrying amounts for each class of Plant & equipment are set out below:		
<i>Office Furniture & Equipment:</i>		
Carrying amount at beginning of year	18,258	21,941
Additions	-	4,325
Depreciation expense	(1,067)	(1,996)
Depreciation expense of assets in discontinued operations (refer note 7)	(1,057)	(6,012)
Assets relating to discontinued operations (refer note 7)	(6,532)	-
Carrying amount at end of year	9,602	18,258
<i>Gas Producing plant and equipment:</i>		
Carrying amount at beginning of period	2,140,611	2,325,663
Additions / Reclassification	-	5,889
Depreciation expense discontinued operations	(49,628)	(119,998)
Impairment losses	-	(70,943)
Assets relating to discontinued operations (refer note 7)	(2,090,983)	-
Carrying amount at end of period	-	2,140,611
	9,602	2,158,869
NOTE 13: RESOURCE PROPERTY COSTS		
Resource Property costs		
Exploration Phase	7,704,644	9,182,411
Production Phase	-	159,390
	7,704,644	9,341,801

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 13: RESOURCE PROPERTY COSTS (continued)	CONSOLIDATED	
	2018 €	2017 €
Reconciliation of carrying amount of resource properties		
<i>Exploration Phase</i>		
Carrying amount at beginning of period	9,182,411	8,383,017
Exploration expenditure	636,128	1,466,203
Change in estimate of rehabilitation assets	-	(131,699)
Transfer to production phase	-	(2,524,310)
Adjustment resulting from reorganisation	-	(506,547)
Impairment losses	-	(767,914)
Reversal of prior impairment losses	-	3,263,661
Assets relating to discontinued operations (refer note 7)	(2,113,895)	-
Carrying amount at end of period	<u>7,704,644</u>	<u>9,182,411</u>

Resource property costs in the exploration and evaluation phase have not yet reached a stage which permits a reasonable assessment of the existence of or otherwise of economically recoverable reserves. The ultimate recoupment of resource property costs in the exploration phase is dependent upon the successful development and exploitation, or alternatively sale, of the respective areas of interest at an amount greater than or equal to the carrying value. Where exploration permits have expired or not renewed, the costs previously capitalised are expensed to the statement of profit and loss.

The Group reviewed the carrying value of its assets and cash generating units using a Value in Use CGU valuation, in particular a valuation on Selva and Teodorico projects was calculated to determine the recoverable amount of each of these fields.

The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). In calculating VIU, the estimated future cash flows are discounted to their present value using an after-tax discount rate (10%) that reflects current market assessments of the time value of money and the risks specific to the assets.

The Company bases its calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the forecasted life of the CGUs. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance. Furthermore, independent valuations were performed for the purposes of estimating the reserves of these projects by CGG Services (UK) Limited.

The recoverable amount determined by the CGG report of Selva and Teodorico was €17.3 million and €17.9 million respectively. The recoverable amount determined by the Groups internal valuation was higher than these amounts.

The carrying value of these assets is significantly lower at €3.9 million and €2.9 million respectively. As a result of this assessment, with the recoverable amount exceeding the carrying value of these assets, no impairment has been required.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 13: RESOURCE PROPERTY COSTS (continued)

	CONSOLIDATED	
	2018	2017
	€	€
<i>Production Phase</i>		
Carrying amount at beginning of period	159,390	599,173
Additions	137,400	782,529
Transfer from exploration phase	-	2,524,310
Change in estimate of rehabilitation assets	-	(86,106)
Amortisation of producing assets in discontinued operations	(6,157)	(136,472)
Impairment losses	-	(3,524,044)
Assets relating to discontinued operations (refer note 7)	(290,633)	
Carrying amount at end of period	-	159,390

The Group currently does not have any production assets

NOTE 14: DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets

Deferred tax assets have been recognised in respect of the following items:

Tax losses	658,474	1,970,177
Accrued expenses and liabilities	85,566	628,332
Recognised deferred tax assets	744,040	2,598,509

The tax losses in both Italy and Australia do not expire. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	1,100,264	3,830,154
Deductible temporary differences	1,840,089	1,840,721
Unrecognised deferred tax assets	2,940,353	5,670,875

Deferred tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the relevant company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) No changes in tax legislation adversely affect the relevant company in realising the benefit from the deductions for the losses.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 14: DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in recognised temporary differences during the year

	Balance 1 January 2017 €	Profit and loss €	Equity €	Balance 31 December 2017 €	Discontinued operations (refer note 7) €	Profit and loss €	Equity €	Balance 31 December 2018 €
Consolidated								
Tax losses	1,888,687	81,490	-	1,970,177	(1,446,919)	135,216	-	658,474
Accrued expenses and liabilities	795,679	(167,341)	-	628,332	(547,994)	5,228	-	85,566
Total recognised deferred tax asset	2,684,366	(85,851)	-	2,598,509	(1,994,913)	140,444	-	744,040

NOTE 15: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2018 €	2017 €
Trade payables and accruals	1,112,384	4,555,543
Other payables	10,461	184,138
	<u>1,122,845</u>	<u>4,739,681</u>

The Group's exposure to currency and liquidity risks related to trade and other payables are disclosed in note 21.

NOTE 16: PROVISIONS

Current:

Employee leave entitlements	2,756	58,270
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Non-Current:

Restoration provision	-	4,802,873
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Reconciliation of restoration provision:

Opening balance	4,802,873	4,961,907
Increase in provision due to revised estimates		(217,805)
Increase in provision from unwind of discount rate in discontinued operations	24,207	58,771
Provisions relating to discontinued operations (refer note 7)	(4,827,080)	-
Closing balance	-	4,802,873

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 17: INTEREST BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

	CONSOLIDATED	
	2018	2017
	€	€
Current liabilities		
Loans	1,201,258	526,892
	1,201,258	526,892

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal Interest rate	Year of Maturity	31 December 2018		31 December 2017	
				Face Value €	Carrying Amount €	Face Value €	Carrying Amount €
Current liabilities							
Unsecured loans	AUD	10%	2019	1,201,258	1,201,258	526,892	526,892

The Group obtained financing through a streamlined facility provided by existing and former Directors of the Company and longstanding shareholders. The facility arrangement has a term of 12 months and an interest rate of 10%. (refer note 23 for details of related party balances)

The Group's exposure to currency, interest and liquidity risk related to interest bearing loans are disclosed in note 21.

NOTE 18: CONVERTIBLE NOTES

During the period, the Company issued convertible notes equivalent to A\$2,500,000 (€1,531,250).

The convertible notes are convertible into fully paid ordinary shares of the Company at a conversion price of A\$0.042 per share. The notes are to be converted or otherwise redeemed within three years of issue (repayment date) and interest shall be payable in cash on the principal amount at a rate of 8% per annum, calculated monthly and payable 6 monthly in arrears. Subject to shareholder approval, if required, the noteholder may before the maturity date convert the convertible note into shares by providing the Company with written notice of the conversion.

The Company has the right to elect to redeem any unconverted convertible notes by giving 30-day notice to the noteholder.

Redemption of the notes occurs on:

- a) The repayment date;
- b) Within 10 business days on the occurrence of an event of default which has not been remedied within the prescribed period; or
- c) On a change in control of the Company (including a takeover) or the sale of the Company's main undertaking unless the noteholder elects to convert the Convertible Notes into shares.

The redemption amount is the outstanding facility amount with respect to each note plus any unpaid interest.

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 19: CAPITAL AND RESERVES

	Ordinary Shares		2018 €	2017 €
	2018 Number	2017 Number		
Share Capital				
Opening balance - 1 January	593,260,128	550,378,091	49,462,268	48,659,337
<u>Shares issued during the year:</u>				
Placement issue of 21 December 2018	18,476,190	-	483,009	-
Return of capital	-	-	(4,410,847)	-
Placement issue on 5 April 2017	-	9,818,182	-	192,471
Settlement of short terms loans by issue of shares on 5 April 2017	-	4,708,784	-	90,528
Placement issue on 7 June 2017	-	13,818,181	-	251,906
Settlement of short-term loans by issue of shares on 7 June 2017	-	14,536,890	-	270,560
Share issue costs	-	-	(3,014)	(2,534)
Closing balance – 31 December	611,736,318	593,260,128	45,531,416	49,462,268

All ordinary shares are fully paid and carry one vote per share and the right to dividends. In the event of winding up the Company, ordinary shareholders rank after creditors. Ordinary shares have no par value.

Following shareholder approval, the Company distributed 100m shares held in Coro Energy Plc to its shareholders as a final completion of the restructuring and spin off of Coro Energy Plc.

Translation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The historical balance comprises of translation differences prior to change in functional currency of a foreign operation.

Dividends

No dividends were paid or declared during the current year (2017: Nil).

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 20: FINANCIAL REPORTING BY SEGMENTS

The Group reportable segments as described below are the Group's strategic business units. The strategic business units are classified according to field licence areas which are managed separately. All strategic business units are in Italy. For each strategic business unit, the CEO reviews internal management reports on a monthly basis. Exploration, Development and Production gas and oil are the operating segments identified for the Group. The individual exploration, development and production operation sites have been aggregated.

In euro	Exploration		Discontinued operation		Total	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
External revenues	-	-	584,676	1,389,195	584,676	1,389,195
Segment (loss) / profit before tax	(664,847)	2,491,555	4,406,460	(4,059,987)	3,741,613	(1,568,432)
Depreciation and amortisation	-	-	(55,784)	(256,470)	(55,784)	(256,470)
Impairment on resource property costs	-	2,491,555	-	(4,075,754)	-	(1,584,199)
Reportable segment assets:						
Resource property costs	7,704,644	9,182,411	-	159,390	7,704,644	9,341,801
Plant & Equipment	-	-	-	2,140,611	-	2,140,611
Receivables	151,866	1,115,084	-	267,446	151,866	1,382,530
Inventory	-	-	-	252,034	-	252,034
Capital expenditure	634,127	1,466,203	137,400	782,528	771,527	2,248,731
Reportable segment liabilities	(527,663)	(3,560,846)	-	(4,897,593)	(527,663)	(8,458,439)

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 20: FINANCIAL REPORTING BY SEGMENTS (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities	2018	2017
	€	€
Profit or loss:		
Total profit / (loss) for reportable segments	3,741,613	(1,568,432)
<i>Unallocated amounts:</i>		
Net finance expense	(85,511)	(416,003)
Other corporate expenses	<u>(1,222,366)</u>	<u>(2,264,757)</u>
Consolidated profit / (loss) before income tax	<u>2,433,736</u>	<u>(4,249,192)</u>
 Assets:		
Total assets for reportable segments	7,856,510	13,116,976
Other assets	<u>1,644,615</u>	<u>4,017,106</u>
Consolidated total assets	<u>9,501,125</u>	<u>17,134,082</u>
 Liabilities:		
Total liabilities for reportable segments	(527,663)	(8,458,439)
Other liabilities	<u>(3,330,446)</u>	<u>(1,669,277)</u>
Consolidated total liabilities	<u>(3,858,109)</u>	<u>(10,127,716)</u>

NOTE 21: FINANCIAL INSTRUMENTS

(a) **Interest Rate Risk Exposures Profile**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	CONSOLIDATED	
	2018	2017
	€	€
Variable rate instruments		
Financial assets	515,604	390,114
Financial liabilities	-	-
	<u>515,604</u>	<u>390,114</u>
 Fixed rate instruments		
Financial assets	-	-
Financial liabilities	<u>(2,732,508)</u>	<u>(526,892)</u>
	<u>(2,732,508)</u>	<u>(526,892)</u>

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 21: FINANCIAL INSTRUMENTS (continued)

Cash flow sensitivity analysis for variable rate instruments:

A strengthening of 50 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

<i>Effect in €'s</i>	Profit or loss		Equity	
	2018	2017	2018	2017
31 December				
Variable rate instruments	2,578	1,951	-	-

(b) Credit Risk

Exposure to credit risk

The Group is not exposed to significant credit risk. Credit risk with respect to cash is held with recognised financial intermediaries with acceptable credit ratings.

The Group has limited its credit risk in relation to its receivables. Receivables from joint operations partners fall under the Joint Operations Agreement for the development of the Selva project. Other receivables from Government agencies have limited credit risk as these are either offset against other indirect taxes or payroll taxes payable first with any remainder receivable within a 12-month period.

The carrying amount of the Group's financial assets represents the maximum credit exposure and is shown in the table below. No receivables are considered past due nor were any impairment losses recognised during the period.

	Note	CONSOLIDATED Carrying Amount	
		2018 €	2017 €
Cash and cash equivalents	10	515,604	390,114
Receivables – Current	11	499,780	2,292,724
Other assets		27,455	100,031
		<u>1,042,389</u>	<u>2,782,869</u>

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 21: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

**Consolidated
31 December 2018**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(1,040,040)	(1,040,040)	(1,040,040)	-	-	-
Interest bearing loans	(1,201,258)	(1,356,638)	-	(1,356,638)	-	-
Convertible notes	(1,531,250)	(1,882,770)	(106,520)	(61,250)	(1,715,000)	-
	<u>(3,772,548)</u>	<u>(4,279,448)</u>	<u>(1,146,560)</u>	<u>(1,417,888)</u>	<u>(1,715,000)</u>	<u>-</u>

**Consolidated
31 December 2017**

<i>In €</i>	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 – 2 Years	2 – 5 Years
Trade and other payables	(4,739,681)	(4,739,681)	(4,739,681)	-	-	-
Interest bearing loans	(526,892)	(602,083)	(602,083)	-	-	-
	<u>(5,132,643)</u>	<u>(5,341,764)</u>	<u>(5,341,764)</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Net Fair Values of financial assets and liabilities

The carrying amounts of financial assets and liabilities (excluding borrowing costs) as disclosed in the balance sheet equate to their estimated net fair value.

(e) Foreign Currency Risk

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than Euro. The currencies giving rise to this risk is primarily Australian Dollars and Pound Sterling.

Amounts receivable/(payable) in foreign currency other than functional currency:	CONSOLIDATED	
	2018 €	2017 €
Cash	413,682	266,382
Current – Payables	(68,022)	(188,370)
Current – Interest bearing loans	(1,201,258)	(526,892)
Non-current – Convertible notes	(1,531,250)	-
Net Exposure	<u>(2,386,848)</u>	<u>(448,880)</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 21: FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
Australian Dollar (\$)	0.632	0.679	0.616	0.651
Pound Sterling (£)	1.130	1.142	1.113	1.126

Sensitivity Analysis

A 5 percent strengthening of the Australian dollar against the Euro (€) at 31 December would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis for 2017 was prepared using the same basis.

	CONSOLIDATED	
	Profit or loss	Equity
	€	€
31 December 2018		
Australian Dollar to Euro (€)	(128,673)	-
Pound Sterling (£)	(308)	-
31 December 2017		
Australian Dollar to Euro (€)	(52,526)	-
Pound Sterling (£)	6,012	-

A 5 percent weakening of the Australian dollar against the Euro (€) at 31 December would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTE 22: COMMITMENTS AND CONTINGENCIES

Contractual Commitments and contingencies

There are no other material commitments or contingent liabilities not provided for in the financial statements of the Company or the Group as at 31 December 2018.

NOTE 23: RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation included in employee benefit expenses (see note 3) is as follows:

	Consolidated	
	2018	2017
	€	€
Short-term employee benefits	267,883	309,143
Termination benefits	-	-
Other long term benefits	-	-
Post-employment benefits	9,847	21,989
Share-based payments	-	57,090
	<u>277,730</u>	<u>388,222</u>

PO VALLEY ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 23: RELATED PARTIES (continued)

INTEREST BEARING LOANS

During 2016 the Company restructured its financing facility by repaying the facility with Nedbank Limited and obtained financing through a streamlined facility provided by existing and former Directors of the Company. The new facility agreement has been reached with entities associated with Byron Pirola and Kevin Bailey (current directors) and Graham Bradly (former director).

Related Party	Loan Amount 2018	Loan Amount 2017	Interest	Repayment Term
Beronia Investments Pty Ltd	A\$236,181	A\$236,181	10% p.a.	12 months
Beronia Investments Pty Ltd	A\$459,696	A\$227,238	10% p.a.	6 months
Beronia Investments Pty Ltd	A\$395,000	-	10% p.a.	6 months
Kevin Bailey	A\$237,305	A\$237,305	10% p.a.	6 months
Fuiloro Pty Ltd	A\$6,191	A\$6,191	10% p.a.	12 months
Fuiloro Pty Ltd	A\$240,000	-	10% p.a.	6 months
G. Bradley	A\$94,927	A\$94,927	10% p.a.	12 Months
Symmall Pty Ltd	A\$90,000	-	10% p.a.	6 months
Beronia Investments Pty Ltd	A\$100,000	-	10% p.a.	6 months
K & G Bailey as trustee for The Bailey Family Trust	A\$100,000	-	10% p.a.	6 months

NOTE 24: PARENT ENTITY DISCLOSURES

	2018 €	2017 €
Financial Position		
Assets		
Current assets	440,283	17,304
Non-current assets	6,643,667	10,021,070
Total assets	<u>7,083,951</u>	<u>10,038,374</u>
Liabilities		
Current liabilities	1,196,513	466,249
Non-current liabilities	1,531,250	-
Total liabilities	<u>2,727,763</u>	<u>466,249</u>
Net Assets	<u>4,356,187</u>	<u>9,572,125</u>
Equity		
Issued capital	45,531,416	49,462,268
Accumulated losses	(41,175,229)	(39,890,143)
Total equity	<u>4,356,187</u>	<u>9,572,125</u>
Financial Performance		
Loss	(1,285,086)	(5,981,321)
Other comprehensive loss	-	-
Total Comprehensive loss	<u>(1,285,086)</u>	<u>(5,981,321)</u>

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 25: INTERESTS IN OTHER ENTITIES

Subsidiaries

The parent and ultimate controlling party of the Group is Po Valley Energy Limited. The investments held in controlled entities are included in the financial statements of the parent at cost less any impairment losses. Set out below is a list of the significant subsidiaries of the Group.

Name:	Country of Incorporation	Class of Shares	2018 Investment €	2017 Investment €	Holdin g %
Po Valley Operations Pty Limited ("PVO")	Australia	Ordinary	2,544,225	2,544,225	100
Coro Energy Plc (formerly Saffron Energy Plc) (refer note 7)	UK	Ordinary	-	5,227,273	-
			-	<u>7,771,498</u>	

NOTE 26: SUBSEQUENT EVENT

Other than matters already disclosed in this report, there were no other events between the end of the financial year and the date of this report that, in the opinion of the Directors, affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

PO VALLEY ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

DIRECTORS' DECLARATION

1. In the opinion of the directors of PVE ("the Company"):
 - i) the financial statements and notes, as set out on pages 18 to 55, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, for the financial year ended on that date; and
 - b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - ii) subject to the matters disclosed in Note 1.2(c), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by 295A of the *Corporations Act 2001* by the acting chief executive officer and chief financial officer for the financial year ended 31 December 2018.
3. The Directors draw attention to Note 1.2 to the Financial Statements which include a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 29 March 2019

Signed in accordance with a resolution of the directors:



Michael Masterman
Chief Executive Officer



Kevin Bailey
Non-Executive Director

Po Valley Energy Limited

ABN: 33 087 741 571

Independent Audit Report to the Members of Po Valley Energy Limited and its Controlled Entities

Report on the Audit of the Financial Report

We have audited the financial report of Po Valley Energy Limited (“the Company”) and its Controlled Entities (“the Group”), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors’ Declaration.

In our opinion:

- a) the financial report of the Group is in accordance with the *Corporations Act 2001* including:
 - i. giving a true and fair view of the Group’s financial position as at 31 December 2018 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor’s report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of Resource Property Costs</p> <p>The Group has an exploration asset of €7.7m at 31 December 2018. The carrying value of exploration and evaluation assets can be subjective based on the Group's ability, and intention, to continue to explore the asset.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the Group's assessment of the carrying value of exploration and evaluation assets. • We have considered the Group's right to explore in the relevant exploration area.
<p>Going Concern</p> <p>The Group has incurred a loss of €1.8m from continuing operations and had net operating cash outflows of €1.46m for the year ended 31 December 2018.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We have obtained the current cash flow forecasts and budgets and discussed the assumptions with management. • We have reviewed the disclosure in Note 1.2(c) for consistency with management's forecasts and assertions.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 15 of the Directors' Report for the year ended 31 December 2018.

In our opinion the Remuneration Report of Po Valley Energy Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



BENTLEYS NSW AUDIT PTY LTD



ROBERT EVETT
Director

Sydney, 29 March 2019